

**ANRT – CURIF JOINT SEMINAR  
18 MAY 2016 – 7.30 PM**

Issues relating to the purchase of equipment used for H2020

Simplification is one of the key features of HORIZON 2020 (H2020), the European Union's framework programme for research and innovation. Although several simplification measures have been put in place, others have had the effect of making project management more complex for European research stakeholders. The revision of the annotated model grant agreement dated 30/10/2015 set out the method for calculating the **eligibility of the depreciation of equipment used** in EU projects<sup>1</sup>: this note, which is explicative only for the European Commission (EC), constitutes a substantive change for most members of the research community. The main impacts include an increase in the amount of justification work and a drastic reduction in the financial returns expected by participants.

This footnote retroactively applies to all H2020 projects. It is therefore capable of calling into question the financial and justification models established by institutions for their equipment. All participants, including universities, may need to revise their budgetary choices, i.e. political decisions, investment in support staff and development of management/monitoring tools, synergy of funds to co-finance projects, etc.

**Background information**

---

Equipment is an intrinsic part of scientific research. The cost of its purchase and usage can be high.

In addition, scientific equipment bought for European projects is generally subject to very specific conditions. Its use, which is qualified and specialized, may thus be reserved for a project or research area to the exclusion of all others; this is the case, for example, on the innovative, pioneering ERC research projects. This specificity overrides any other requirements relating to equipment's productivity and full capacity. Moreover, in many cases, equipment is only partly used on European projects.

The 7<sup>th</sup> framework programme (FP7) and H2020 are based on the principle of refunding the actual costs incurred by establishments in carrying out their projects. This refund covers the depreciation of equipment paid pro rata for use on the European project.

---

<sup>1</sup> [Annotated model grant agreement](#) P.78

The calculation method, used by the beneficiaries and accepted by the auditors, has until now been the following:

$$\text{Depreciation of the cost of equipment for the duration of the project} \times \text{time used by the project} / \text{total time of the equipment's use}$$

The explanatory note in the annotated model grant agreement of now stipulates the following method:

$$\text{Depreciation of the cost of equipment for the duration of the project} \times \text{time used by the project} / \text{full capacity of the equipment for the duration of the project}$$

Full capacity here means the total time during which the machine is potentially available for use. To define full capacity requires identifying:

- Constraints linked to the institution (opening hours of the room housing the equipment, need for the presence of an engineer to operate the equipment, etc.),
- Constraints linked to the machine (operations for maintenance, sampling or compliance with the manufacturer's technical specifications).
- 

These constraints are not included in the equipment's "full capacity".

## The issue

---

The method for calculating the eligibility of the cost of equipment recently introduced by the EC therefore goes against participants' usual practices. Unlike FP7, which required simply producing a logbook of equipment's usage, H2020 will now involve producing bundles of supporting documents and a great deal of patience. Since more justification inevitably leads to more errors and checks, the new rule could increase the occurrence of financial adjustments in the case of audits.

It is important to point out that this simple note, although featuring items open to interpretation with no change to the regulations in force, nevertheless applies to all current and future H2020 projects. Corrections will need to be made to financial statements already transmitted to the EC.

This new obligation, which is understandable in terms of not financing the underuse of ordinary production equipment, requires that each beneficiary officially define (i.e. in an auditable manner with documented proof) the full capacity of each piece of equipment handled on a European project.

This involves at first glance:

- A probable financial loss in comparison with FP7: the less the equipment is likely to be used, the lower its eligibility for depreciation. This will particularly apply to machines whose vocation is to be configured to work in very specific conditions for a limited period (i.e. far from full capacity).
- A significant increase in administrative expenses in terms of staff due to the addition of a new task that involves:
  - o Identifying the full capacity of each piece of equipment,
  - o Following up on cost justification.

- It is clear that this has an immediate impact on budgets and therefore on universities' strategy for participating in H2020, i.e. is the university prepared to make up for this loss of income (drop in refund for depreciation) with self-financing and its own resources?
  
- Note that the time spent on maintenance and configuration can be subtracted from "full capacity". Is the university capable of establishing and ensuring this kind of follow-up (i.e. taking account of the machine's availability, the opening hours of the room housing it, maintenance and sampling operations, its particular technical specifications, etc.), which could involve totally changing current practices?
  
- What about the ERCs, which often call for considerable equipment purchases?

Each university will therefore need to decide whether any reforms that need implementing and the work required for justification fit in with its own strategy for participating in European research and innovation programmes, considering the expected financial return and, if necessary, the equipment concerned or the depreciation thresholds. Working on a common response with LERU is a solution.

## Recommendations

---

Universities have several options, including:

1. Calculate the full capacity of each piece of equipment used as part of an EU project and set up a suitable monitoring system to justify the time of usage in order to obtain a refund in proportion with that time. In addition, evaluate the percentage of the cost of the machine that could be charged as an eligible expenditure of the EU project and the co-funding required to be able to take a decision on whether (or not) the operation is worthwhile, depending on the university's strategy.
  
2. Negotiate with the Commission the possibility of identifying standard production times per type of equipment. Based on the staff productivity model, this would consist in identifying average values, such as the average number of hours that a transmission electron microscope is used over a year, the usage time unit of an X-ray diffractometer, or the amount of time that engineers are present to use lasers, etc. in line with the specific conditions of the equipment's purchase. This method would have the advantage of simplifying justification work.
  
3. No longer declare costs related to purchase of equipment for EU projects, but:
  - a. Increase self-funding by the same amount.
  - b. Charge the expenditure to the project's indirect costs, if possible financially.
  - c. Look for other sources of complementary funding (SESAME, FEDER, industrial contracts, etc.).
  - d. Evaluate other options (equipment rental, outsourcing, leasing, etc.).

At the same time, stakeholders in the framework programme could lobby the EC to escalate the constraints and requirements and also influence changes to how this rule is interpreted. The following are potential areas for reflection:

1. Develop the notion of the “full capacity” of a piece of specialized scientific equipment with a view to establishing that it corresponds to the sum of the usage of that piece of equipment. This should be clearly set out in the Description of Action.
2. Suggest an option whereby equipment constitutes part of the researcher’s environment, in particular a percentage of the payroll. As part of the continued simplification of considering indirect costs up to 25% of direct costs, the percentage of environment and structure costs could be increased (it was 60% in FP7).
3. Call for action from member states and the European Parliament to bring legal uncertainty to an end, e.g. by gathering an ad hoc working group of member states and the EC working on the model grant agreement. Its mission would be to: simplify the text using language that is easy to understand, avoid the risk of different interpretations in the case of audits, and avoid the use of notes to introduce changes in practice.

*This seminar and the support documents have been prepared by the ANRT (Alain Quevrex and Thibaut Vanrietvelde) and the Université Pierre et Marie Curie - UPMC (Elena Billi-Rizza and Annabelle Ostyn) with the support of Sandrine Schott-Carrière, Université de Strasbourg and Céline Damon, Université Aix-Marseille.*